Research Proposal

Title of the proposed study

“Need & importance of Interest Free Co-Operative Credit Society in Maharashtra Case Study of Rahat Urban Co-Operative Credit Society Ltd. Maharashtra”

For Registration of
Doctor of Philosophy (Ph.D.)
Faculty of Humanities
In Economics

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1. INTRODUCTION

Most of the Asian countries face challenge of poverty which is linked with unemployment. Lack of assets and income make poor unable to invest for self employment or for knowledge /skill development leading to employment. Access to financial services may help people to come out of poverty through variety of ways like availing credit, insurance and saving facilities. In India, in spite of several initiatives for financial inclusion, field level data shows that by merely opening bank account the access to credit may not be there and financial inclusion in true sense may not happen. The microfinance movement had regional success in India. There are almost 35% urban poor in India indicating the need of innovations in financial services for them.

In India, **Co-Operative Sector** developed to help the peoples of low income group whom banks generally do not gives loans because of risk; they are taking loans from the financiers at high interest rates. So society is the better option to help them. Society generally gives a wide range of banking and financial services like Loans, F.D., R.D., Saving, Insurance etc. Generally Co-operative Credit Society is formed by members, who are at the same time the owners and the customers of their Society.

The **concept of interest free banking** is an upcoming and significant development in the timeline of money lending. Interest free banks operate not only in Muslim countries but also in Non-Muslim countries. The interest free banking in India have been trying but no full-fledged interest free banks or a conventional bank with interest free banking services currently working in India. Interest free banking is similar to conventional banking but only difference conventional banking is depend on interest that is the main pillar of interest free banking.

Rahat Urban Credit Cooperative Society is an initiative, started in 2008, bya group of few people from Maharashtra, belonging to Islam religion and believing on the teachings of Quran that the interest should not be taken. Though inspired by a particular religion the services are extended to all community groups. In today's context when different religions are discussed for using the religious values/teachings negatively, Rahat has emerged as a unique example how religious teachings can be utilized positively for society's benefits. Since 2011, besides usual financial products, it gives interest free and collateral free loans for poor for self employment and for consumption purposes. Basically "Rahat" means relief.

The case study focuses on understanding the community based business model and its impact on urban poor in terms of their financial needs by analyzing the financial performance. The study explores how 98% recovery rate for loans is there and how depositors are attracted for interest free product. It also tries to understand the use of social capital in provision of financial services for urban poor having inability to give collateral.

- **Concept of interest free banking**

Interest free banking is totally interest free. Two fundamental principles of Interest free banking are the sharing of profit and loss, and the prohibition of the collection and payment of interest by lenders and investors. Some conventional banks have windows or sections that provide designated interest free banking services to their customers (for ex. Standard Chartered Bank, Morgan Stanly, Citibank, HSBC, Goldman Sachs, Merrill Lynch).

"Ethical Banking" is another name for Interest free banking, because of the commonly accepted moral values all over the world. The system is not only designed for only one religion, but also for all people. In Interest free banking, it is not allowed to charge interests; nevertheless, the bank has to make money to survive and to cover its expenses.

- **Basic principle of interest free banking**

The lender and the borrower in business or partnership share both profits and losses arising from the business venture with the money obtained from the lender. The basic view is that the general community should benefit from such activities.

i. Interest free banking inculcates fairness through its operations. Transactions based on uncertain terms and conditions cannot become part of Interest free banking. All the terms and conditions embedded in the transactions are properly disclosed in the contract/agreement.

ii. Interest is totally prohibited.

iii. Interest free loans are encouraged to spread financial inclusion.

iv. Certain industries, such as pornography, alcohol, and gambling are not allowed and prohibited for investment. This is why interest free banking is also referred to as ethical banking.

2. WORSKING DEFINATIONS OF TERMS USED

i. Bank

A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes.

According to Indian Banking Regulation Act, 1949, "*Banking is the business of accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdraw-able by cheque, draft, and order or otherwise."*

ii. The Reserve Bank of India (RBI);

The Reserve Bank of India (RBI) is India's central bank and regulatory body under the jurisdiction of Ministry of Finance, Government of India. It is responsible for the issue and supply of the Indian rupee and the regulation of the Indian banking system. It also manages the country's main payment systems and works to promote its economic development.

iii. Scheduled Bank

a) Commercial Bank; A commercial bank is a financial institution which performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit.

b) Co-Operative Bank: These banks are registered under the Co-operative Societies Act, and function on principles of co-operation. They accept deposits from members and grant loans to them at low rates of interest.

c) Credit Co-Op Society: These societies are formed to provide financial support to the members. The society accepts deposits from members and grants them loans at reasonable rates of interest in times of need. Village Service Co-operative Society and Urban Cooperative Banks are examples of co-operative credit society.

d) Microfinance: Microfinance refers to the provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit; however some microfinance organizations also provide insurance and payment services.

iv. Interest Free Banking;

a) According to Longman dictionary: "A Loan where the borrower does not have to pay interest for a particular period of time."

b) **According to Oxford Dictionary: "**With no interest charged on money borrowed."

c) "The banking system where interests are not used. In this system, banks do not offer a fixed rate of return on deposits and do not charge interest on loans."

d) Shares: Share is smallest unit in the total share capital of a company or bank.

e) Shareholder:A shareholder, also referred to as a stockholder, is any person, company, or institution that owns at least one share of a company's stock.

f) Bonds: Bonds refer to high-security debt instruments that enable an entity to raise funds and fulfill capital requirements.

g) Account: A record or statement of financial expenditure and receipts relating to a particular period or purpose.

h) Audit: An audit is a detailed review of financial records.

i) Loan: A loan is when money is given to another party in exchange for repayment of the loan principal amount plus interest.

j) Interest: Aninterest is the monetary charge for the privilege of borrowing money.

k) Debtor: A debtor is a person or enterprise that owes money to another party.

l) Bankruptcy: Bankruptcy is a legal action taken by a business or individual when they are unable to pay off their debts.

3. REVIEW OF LITRETURE:

i. According to Dr.Raghuram Rajan (Former Governor of RBI); "Another area that falls broadly in the ambit of financial infrastructure for inclusion in the provision of interest free banking. While interest free banking is provided in a limited manner through NDFC's and cooperatives, the committee recommends that measures be taken to permit the delivery of interest free finance on a large scale, including

through the banking system. This is in consonance with the objectives of inclusion & growth through innovation. The committee believes that it would be possible, through appropriate measures, to create a framework for such product without any adverse systematic risk impact." *Dr. Raghuram Rajan (Governor Of RBI) Chapter 3: Broadening Access To Finance Page-35, Committee On Financial Sector Reforms Report)*

ii. ***According to MBN Rao (Chairman, Indian Bank Association);*** It (Interest Free Banking) is an idea, whose time has come."

(MBN Rao (Chairman, Indian Bank Association, spoke in august in 2007)

iii. ***According to Dr.MS Swaminathan (Father of Indian Green Revolution)***;

"Islamic banking, which propagates zero interest lending, could hold the key to solving farmer's suicide crisis."

(The New Indian Express, Page No 5, Chennai Edition Dated April 6, 2010)

iv. ***The Vatican Official News Paper L'Osservatore Romano;*** The ethical principle on which Islamic finance is based may bring banks closer to their clients and to the true sprite which should mark every financial service."

(The Vatican Official News Paper L'Osservatore Romano, said in an article dated 5th march 2009)

v. ***According to Dr.Manmohan Singh (Former Prime Minister of India);*** While IFB (Interest Free Banking) is provided in a limited manner through NBFCs and co-operatives, the committee recommends that measures be taken to permit the delivery of interest free finance on a large scale, including through banking system."

(High Level Committee of Planning Commission of India, Report Submitted To Chairman, Dr. Manmohan Singh, On 12th September 2008)

vi. ***Justice Krishna Iyer; "I*** welcome interest free finance in India. It has proven successful in poverty alleviation and promoting sustainable growth in many countries, including the united state, and it is very relevant in our country where 20 million people are starving."

(Justice Krishna Iyer, statement made on the proclamation to hold an international seminar in Kochi on October 4-6, 2010)

vii. ***Dr. Jeet Singh, Dr. PreetiYadav (2013);*** India is the second largest population country and all are not access bank account on the religious faith. Current banking system in India not allowed interest free banking. But Islamic banking shall be in the interest of India.

4. OBJECTIVES OF THE STUDY

The objectives of study can be summarized as follow:

i. To understand the basic concepts and principles of interest free banking.
ii. To find the awareness level of interest free banking in the people of Maharashtra.
iii. To highlight the current status and future potential of interest free banking in Maharashtra.
iv. To study the need of low cost funds for the micro, small and medium size enterprises.
v. To study the major issues and constraints in implementation of interest free banking in Maharashtra.
vi. To recommend effective implementation strategies to Rahat Urban Co-Op Credit Society Ltd. Maharashtra after critical study

5. SIGNIFICANCE OF THE STUDY

The outcome of this study will result in following benefits;

In recent times, the Interest free banking has gained lot of importance. Interest free banking is a tool very well used by the western world to deal with the issue of economic crisis. It helps in investment in less speculative and risky investments. Thus, starting up interest free banking will increase the money flow in the economy. Our banking sector is going through a crisis and cost of funds is also at a very high level as compared to the western countries. The study will be helpful for the micro, small and medium size enterprises which have a clear need of low cost funds and the paper will consider ways how the interest free banking can find its way into Maharashtra. The study will help to find the awareness level of interestbanking in the people of Maharashtra. It must help to find in detail the thinking process of the people with respect to interestfreebanking and will remove some of the myths related to interestfree banking. People believe that Interest free banking is confined to one religious people but it is a myth. It is a banking system which is different from conventional system but has benefit for

all. This study will also help the people to have a real knowledge about the Interest free banking system. It must tell to the regulators that how people of Maharashtra views the idea of introducing interest free banking in Maharashtra. It must also help in the strategy formulation by the government for the implementation of Interest free banking into our society. It must help to identify the barriers in starting the Interest free banking system in the state of Maharashtra and helps in planning of the corrective steps. The study is very much required in context of a state which is having industrial growth.

6. Limitations of study

I. The study is confined to only few Rahat Urban Co-operative credit society of Maharashtra those who are working since last Ten Years.

II. Due to Recent establishment of the all branches could not cover all branch of the societies for sample.

III. The focus of the study is limited only to the interest free co-operative society

IV. The findings will be based on the Responses of the respondents.

7. HYPOTHESIS

i. **H0 :** There is no much awarenessof interest free banking by people of Maharashtra.

   H1 : There is much awareness of interest free banking by people of Maharashtra.

ii. **H0:** There are no major issues and constraints in implementation of interest free banking in Maharashtra.

   H1: There are major issues and constraints in implementation of interest free banking in Maharashtra.

iii. **H0:** There is no future potential & opportunities for interest free banking in Maharashtra.

   H1: There is future potential & opportunities for interest free banking in Maharashtra.

iv. **H0:** Interest free banking does not play a significant role in supporting the low cost funds for the micro, small and medium size enterprises in Maharashtra.

H1: Interest free banking plays a significant role in supporting the low cost funds for the micro, small and medium size enterprises in Maharashtra

- Testing of Hypotheses :

The hypotheses under study will be tested by using various data analysis and statistical tools.

8. RESEARCH PROBLEM

Today Interest free banking is gaining momentum throughout the world, but in India it is growing slowly due to no awareness with the concept and regulatory issues. The research intends to focus on the issues and prospects of interest free banking in Indian context.

Q1: What is interest free banking and how it is different from conventional banking?

Q2: What are the prospectus and challenges of interest free banking in Maharashtra?

Q3: What could be appropriate model for introducing interest free banking?

9. RESEARCH METHODOGY& DATA COLLECTION

i. Study Design:

The proposed research study is descriptive in nature. A survey method will be applied for the study. Therefore the researcher has to collect the raw facts & figures through the research instrument. The research instrument which the researcher is going to use in his study is the structured questionnaire.

ii. Population & Sample:

Co-operative credit societies officials engaged in day to day banking operations,micro, small and medium size enterprises will be a part of total population. After collection of data, it will be analyzed by using suitable statistical tool & it will be presented in suitable format.

iii. Instrumentation:

A structured questionnaire shall be prepared as an instrument to collect the primary data from prospective respondents.

iv. Data Collection :

For accomplishing the objectives of the study, Primary as well as secondary data will be used in the study

- **Primary Data:**Questionnaire for different stakeholder's viz Cooperative credit societies, representatives from nationalized banks & entrepreneurs.
- **Secondary Data:P**ublished and unpublished resource such as Academic And Scholarly Journals, Thesis, Seminars, Conference, Reports, Internet Website, Textbooks, Newspapers, Magazines, TV Shows, Existing Literature & Other Scholarly Work

v. Data Analysis Plan and testing of hypothesis

Data analysis of information gathered through structured questionnaire & observations shall be carried out by using various statistical tools such as Chi Square test, ANOVA & Correlation technique etc.

10. LAYOUT OF THE TEHSIS

Chapter Scheme

Entire thesis will be spread over five chapters. The detailed chapter scheme to be as under:

I.	**Chapter - I**	Introduction
II.	**Chapter - II**	Literature Review
III.	**Chapter - III**	Research Methodology
IV.	**Chapter - IV**	Urban Co-operative Bank & Its Development.
V.	**Chapter – V**	Development of Rahat Urban Co-Op Credit Society & Its Need & importance.
VI.	**Chapter - VI**	Observation & Findings
VII.	**Chapter - VII**	Conclusions and Recommendations
References		Bibliography and Webliography
Annexure		Copy of Questionnaires, Abbreviations

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